

THE FOLLOWING DOCUMENTS
ARE ATTACHED:
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NIC 03350 88

NIC 03373 88

SUBJECT:

NIC 03373-88
29 November 1988

MEMORANDUM FOR: Deputy Director of Central Intelligence

FROM: Deane E. Hoffmann
National Intelligence Officer for Economics

SUBJECT: Briefing Material for Vice President Bush *on Mexico*

The packet on Mexico was prepared at the request of Steve Danzansky. I intended to deliver it on Monday, the 21st, after your review and approval. At 4:30 Friday, however, Sam Watson's secretary told me that the briefing books would be assembled over the weekend. After some discussion with Fritz and Dave over how to meet the deadline while complying with the instructions on dealing with the Vice President's Office, we decided to send the material by LDX with an info copy to you. The packet, by the way, was coordinated with DI/ALA. In retrospect I should have called you at the time we were sending it out. Mea culpa.

agree!

Deane E. Hoffmann



CL BY SIGNER

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Economic Briefing Material for Vice President Bush for Meeting with Salinas

FROM:

Deane E. Hoffmann
NIO/Economics

EXTENSION

NO.

NIC 03350-88

21 November 1988

STAT

TO: (Officer designation, room number, and building)

DATE

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OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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2-4 FYI; no action required

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*WHL**Given earlier instructions, why are we seeing this after the fact?
Pg.*

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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC 03350-88
18 November 1988

NOTE FOR: COL Samuel J. Watson III

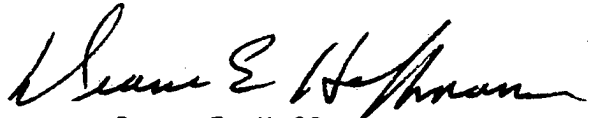
The attached "briefing book" was prepared by the Assistant National Intelligence Officer for Economics, [redacted] It contains our version of what President-elect Salinas's talking points for his upcoming meeting with Vice President Bush might look like. Since it is based on limited information, it should be read in terms of our best estimate as to how Salinas will approach economic issues. In sum:

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- We do not expect Salinas to be confrontational. He will tie Mexico's ability to continue economic reform to US financial assistance, especially in influencing the banks.
- Rather than act as a spokesman for the Latin American debtors, he will emphasize his country's special relationship with the US.
- We are less certain about whether Salinas will talk about political reform in Mexico, although he has skillfully linked economic performance with political stability and has referred to political pressure from the left as the rationale for a debt moratorium.
- Other than broad commitments to continue reform, Salinas is unlikely to take this opportunity to make specific promises such as on foreign investment.

I have also included a thumbnail sketch of the economic problems Salinas faces. If you have any questions call me on [redacted]

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Deane E. Hoffmann
National Intelligence Officer for Economics

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MEXICO: Salinas Economic Problems

President-elect Salinas has made the fight against inflation his top priority. Under his behind-the-scenes guidance Mexico has reduced inflation over the last year under a program which froze wages, prices, and the exchange rate. This success has been costly, however:

- Real wages fell 30 percent this year and economic growth stalled.
- The overvaluation of the peso combined with political uncertainty spurred capital flight. Foreign exchange reserves fell at a rate in excess of \$1 billion per month since June, reducing reserves to less than \$8 billion.
- Mexico's current account--the balance of trade in goods and services--deteriorated by \$6.5 billion this year, falling from a surplus of nearly \$4 billion in 1987 to a deficit of \$2.6. Imports are up sharply both due to the overvalued peso and a reduction of barriers to foreign purchases while oil revenues have fallen.

The large budget and trade deficits Mexico will experience next year will present particularly difficult problems for Salinas. Wage, price, and exchange rate controls have masked the underlying inflationary pressures caused by the budget deficit which is now running at the equivalent of about 15% of GDP. Even a major effort to divest state-owned enterprises and to cut costs in other areas will not significantly reduce this deficit. Salinas could devalue the peso to boost non-oil export revenues, slow import growth, and preserve foreign exchange reserves. A devaluation would be costly in terms of inflation, however, because it would prompt producers to raise their prices to compensate for higher import costs, while workers would demand higher wages. Furthermore, a devaluation would imply to consumers that the battle against inflation was lost.

Mexico believes it needs additional substantial resources-- either in the form of reduced foreign debt payments or new loans--to keep inflation down and to achieve moderate GNP growth in 1989. Salinas will take a hard line to secure the financing he believes Mexico needs. He will be pragmatic in his approach, however, and deal through US Government channels rather than announce unilateral actions publicly as the Brazilians have done in the past.

We do not believe Salinas has settled on a foreign debt strategy yet.

- Preliminary position papers suggest a strategy to tie debt payments directly to growth.

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We believe Salinas will try to avoid the complete moratorium that some of his more radical advisors advocate. He will push hard for debt relief, however, acting on a conviction that Mexico enjoys a special relationship in Washington which gives it a competitive edge in negotiations with US policymakers.

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